General Drive-In Corporation Annual Report -- 1962
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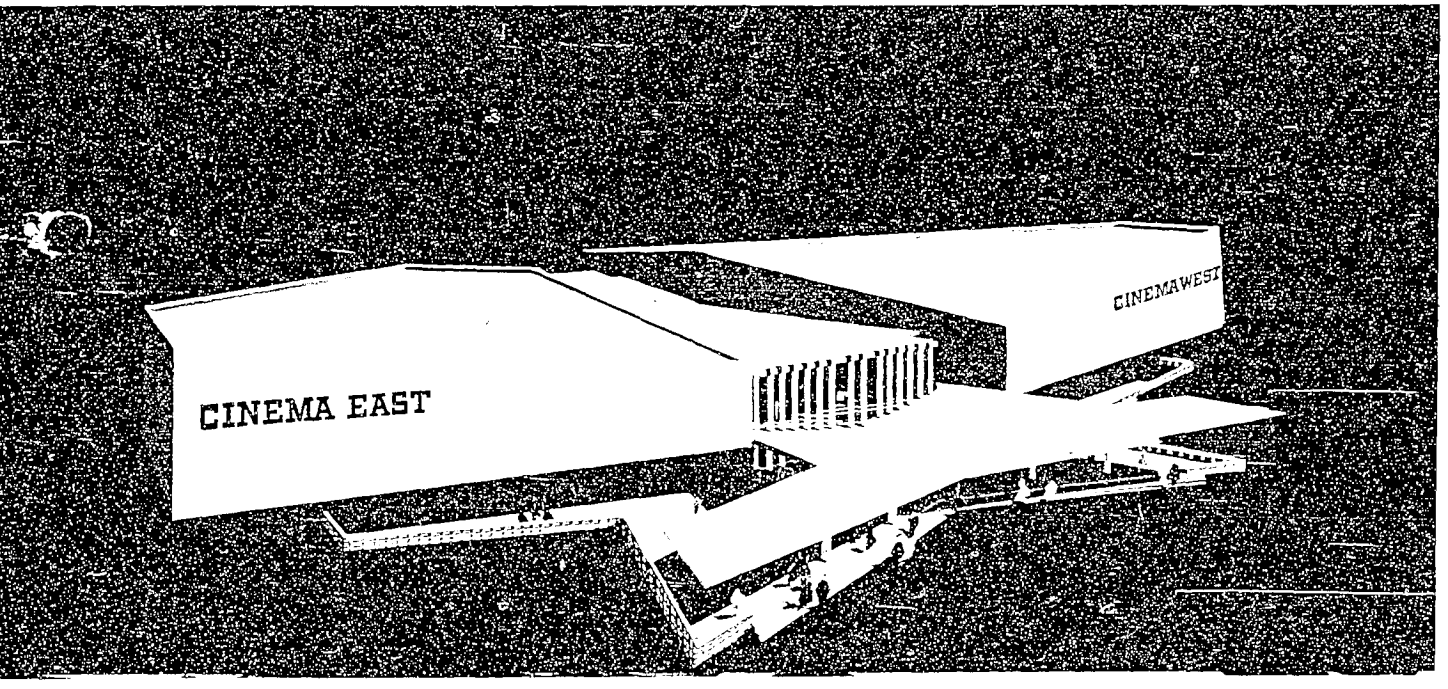
ANNUAL REPORT

year ended october 31, 1962

GENERAL DRIVE-IN

corporation



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GENERAL DRIVE-IN CORPORATION · 1480 BOYLSTON STREET · BOSTON 16, MASS.

RICHARD A. SMITH, *President*
MELVIN R. WINTMAN, *Vice President*
EMMANUEL KURLAND, *Treasurer*
S. SIDNEY STONEMAN, *Secretary*
EDWARD E. LANE, *Controller*
HAROLD SINGER, *Assistant Secretary*
ROBERT J. KURLAND, *Assistant Secretary*

RICHARD A. SMITH
EMMANUEL KURLAND
S. SIDNEY STONEMAN
MAURICE M. WHEELER
CHARLES L. MOORE

Old Colony Trust Company, Boston, Massachusetts

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To the Shareholders of General Drive-In Corporation

I am pleased to report that our company's position is sound and its prospects are most encouraging. In 1962, our progress was marked by continuing expansion, producing gains in net worth, total assets, gross sales, net profits and cash income.

The image of General Drive-In Corporation as a diversified and balanced leisure-time entertainment company is firmly established. We operate sixty-five units as listed on the inside back cover of this report. The company is recognized as one of the country's three largest drive-in theatre circuits as well as one of the larger chain operators in the bowling industry and is emerging as a leader in the fast-growing shopping center theatre field.

TIME Magazine singled out General Drive-In Corporation for special mention (*Modern Living* section November 16, 1962) and described the shopping center "as the center of the community's cultural and recreational life . . . as the place where people are (or can get to)." It is in this area that we will concentrate our expansion over the next few years. Before discussing our prospects, however, let us look briefly at the past year's operations.

Financial

The comparison chart on page 3 outlines our financial progress. Net worth increased to $8,361,160 and total assets increased to $13,461,996. Gross revenues increased to $12,799,231 from $10,422,871. Earnings increased to $770,520 or $.84 per share on 918,752.5 common shares outstanding as against $726,863 or $.79 per share last year. Of much greater importance, cash income (net profit plus depreciation) rose to $1,469,656 or $1.60 per share from $1,242,833 or $1.35 per share.

Last year we indicated that it was our intention to use our large excess of working capital in part to finance our expansion program. This we have done by putting some of our cash into new theatre and bowling assets, thus delaying for a time the use of borrowed funds recently made available. We have at our disposal $4,000,000 provided by long-term debt financing from The First National Bank of Boston and State Mutual Life Assurance Company of America, calling for neither equity dilution nor limitation on the payment of dividends out of current or future earnings. The company is not contemplating any change in its dividend payment policy of $.50 per share payable 12½¢ quarterly.

Operations

Our most gratifying progress to date has been in the Shopping Center Theatre Division. We already operate ten such theatres with combined capacity of over 13,000 seats, now producing 21% of our gross revenue. We have reached an enviable position in the industry where substantial real estate developers have offered us as many theatre sites in major regional shopping centers as we can absorb within the present limits of our finan-

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cial resources. This situation results from the recognition for financing purposes by a number of major insurance companies of the security inherent in a General Drive-In-guaranteed lease, making it possible for developers to finance new theatre locations without undue difficulty. This unique position and the availability of fresh capital give us a strong competitive advantage, enabling us to capitalize on the impressive shopping center theatre growth trend and the increasing interest in motion pictures generally. We expect to continue to capture an important share of the growing shopping center theatre market.

The cover of this report indicates the importance your management attaches to the twin theatre concept for our Shopping Center Theatre Division. Eight to ten of the new theatres will be twins and second auditoriums will be added to several of the present group. Twin theatres offer several inducements to attract a relatively large and untapped segment of the suburban audience. Films appealing to different audience tastes can be shown simultaneously, making it possible to use more foreign films and long-run roadshow attractions ordinarily omitted from the usual suburban theatre schedule. More special children's shows can be exhibited, and the most popular films can be held over in one auditorium while a new show opens in the other. The most important advantage of the twin is the use of a staggered time schedule with a new performance as often as every hour on the hour, permitting the busy suburbanite to attend at his own convenience.

Attractive physical appointments and ample free parking available at all our new shopping center theatres, plus the versatility afforded by the twin concept in as many locations as space and economic considerations permit, will continue to spark the successful growth of our most promising division. The inside back cover lists the major cities in or near which some of our new theatres will be located. There are a number of other locations presently under negotiation which have not been listed.

Our twenty-six drive-in theatres performed well this past year on a level consistent with previous years. We do not plan to construct additional drive-ins now, but we are considering expansion in this division through acquisition of units with established earnings records.

For most of our bowling centers, 1962 was the first full year of operation. The division operated on approximately a break-even basis. It is our belief that selectivity of sites in non-competitive areas and our long experience in the leisure-time entertainment field will continue to contribute to our relative success in bowling and that earnings and, more particularly, cash flow should develop at a satisfactory rate. In 1963 we expect to open five new centers, increasing our bowling operations to sixteen units totaling 542 lanes. This will complete our bowling expansion program.

Growth in our other divisions has reduced the proportionate contribution to sales and earnings of the Suburban and Resort Division, yet the eighteen theatres in this group continue to perform steadily and profitably. In line with our basic policy of maintaining modern facilities, two units were completely remodeled. One unprofitable unit was closed and one older lease favorably revised. We project a good profit increase from this division this year.

Its diversified Theatre and Bowling Divisions afford General Drive-In the opportunity to operate a profitable captive vending business. As each new theatre or bowling center opens, a new vending and concession unit is added. These units, which require comparatively small additional overhead, yield a very high level of profit and supply approximately 25% of the total volume of the company. As the company expands, this percentage of total revenue should remain reasonably constant.

With the major portion of management's time and effort consumed by the shopping center theatre expansion and the creation of the Bowling Division, we have not as yet activated a Real Estate Division to develop our vacant properties. This acreage is carried on our books at its original cost of $1,182,000, but we believe that its present market value is far in excess of that

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figure. It is one of our long-term objectives to develop these properties to their maximum potential.

In a move designed to strengthen our management team, Melvin R. Wintman, now completing fourteen years with the company, the last seven as general manager, has been elected vice president in charge of operations. With recent additions to film-buying and operating personnel and to our independent controller's department, we have a young, experienced and dedicated executive group.

Outlook

Financial and personnel capabilities will allow us to open at least twenty new shopping center theatres within approximately two years. At that point our annual sales volume should exceed $20,000,000. Advance planning for this phase of our expansion program has already been completed. Future increases in general and administrative expenses should be relatively modest so that these items in the aggregate may represent a lesser percentage of total sales than in the recent past. This should result in a greater profit margin for the company as it continues to expand.

Our reputation for pioneering and innovation in our industry has been further enhanced by our activity in shopping centers and by the development of the promising twin theatre concept. Population growth, particularly in suburban areas, and the production of motion pictures of better quality are creating a favorable climate for the industry. General Drive-In Corporation is in an excellent position to take full advantage of these trends, with continuing growth in both sales and earnings expected in 1963.

Sincerely yours,

March 1, 1963 — RICHARD A. SMITH, *President*

Five Year Comparison of Income *Year Ended October 31*

	1962	1961	1960	1959	1958
Net worth	$ 8,361,160	$ 8,041,407	$6,676,441	(Figures not available)	
Total assets	13,461,996	12,632,088	9,187,182	(Figures not available)	
Revenues	12,799,231	10,422,871	8,139,965	$7,921,477	$7,632,130
Net income	770,520	726,863	870,253	860,167	703,723
Cash income	1,469,656	1,242,833	1,270,663	1,262,923	1,143,500
Per share data*					
Net income	$ .84	$ .79	$ .95	$ .94	$ .76
Cash income	1.60	1.35	1.38	1.37	1.24

*Based on 918,752 5 shares outstanding at October 31, 1962

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CONSOLIDATED BALANCE SHEET *October 31, 1962 and 1961*

Assets	1962	1961
CURRENT ASSETS		
Cash	$ 1,768,422	$ 2,535,179
Marketable securities – At cost	6,598	6,598
First purchase money mortgages – Due within one year	73,400	72,400
Sundry deposits and receivables	181,761	375,643
Concession inventories – At cost	111,127	84,412
Other current assets	264,221	256,368
	$ 2,405,529	$ 3,330,600
INVESTMENTS AND ADVANCES		
Unconsolidated affiliated companies –		
At underlying book value (Note 1)	$ 563,043	$ 520,381
Other – At cost	172,475	172,475
	$ 735,518	$ 692,856
FIXED ASSETS – At cost – Net of accumulated depreciation, amortization and investment credit (Note 2)	$ 9,089,410	$ 7,617,710
OTHER ASSETS (Note 3)	$ 1,231,539	$ 990,922
	$13,461,996	$12,632,088

The accompanying Notes to the Financial Statements are an integral part of this statement.

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Liabilities and Stockholders' Equity	1962	1961
CURRENT LIABILITIES		
Long-term debt – Due within one year	$ 659,634	$ 545,234
Accounts payable	724,864	930,986
Accrued taxes (Note 4)	672,693	616,774
	$ 2,057,191	$ 2,092,994
DEFERRED INCOME (Note 5)	$ 109,866	$ 161,278
DEFERRED FEDERAL INCOME TAXES (Note 6)	$ 42,010	$ 10,355
LONG-TERM DEBT (Note 7)	$ 2,891,769	$ 2,326,054
STOCKHOLDERS' EQUITY		
Common stock – No par value (Note 8)		
Authorized – 1,470,000 shares		
Issued – 1962 – 924,769 shares		
– 1961 – 923,719 shares	$ 2,250,605	$ 2,246,605
Capital surplus	10,000	10,000
Retained earnings (Notes 1 and 9)	6,113,672	5,797,919
	$ 8,374,277	$ 8,054,524
Less: Treasury stock – 6,016.5 shares – At cost	13,117	13,117
	$ 8,361,160	$ 8,041,407
	$13,461,996	$12,632,088

The accompanying Notes to the Financial Statements are an integral part of this statement.

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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS *Years Ended October 31, 1962 and 1961*

	1962	1961
REVENUES	$12,799,231	$10,422,871
COSTS AND EXPENSES		
Operating costs	$ 6,569,035	$ 5,391,684
Administrative expenses	4,277,800	3,475,278
Depreciation	699,136	515,970
	$11,545,971	$ 9,382,932
OPERATING INCOME	$ 1,253,260	$ 1,039,939
Capital gains – Net	33,438	88,113
INCOME BEFORE FEDERAL INCOME TAXES	$ 1,286,698	$ 1,128,052
Provision for Federal income taxes	515,739	426,654
INCOME AFTER FEDERAL INCOME TAXES	$ 770,959	$ 701,398
Equity in net income or (loss) of unconsolidated affiliated companies	(439)	25,465
NET INCOME	$ 770,520	$ 726,863
RETAINED EARNINGS – BEGINNING OF YEAR	5,797,919	5,492,701
Adjustment of prior years' taxes, etc.	4,483	14,029
Dividends paid	(459,250)	(435,674)
RETAINED EARNINGS – END OF YEAR	$ 6,113,672	$ 5,797,919

The accompanying Notes to the Financial Statements are an integral part of this statement

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Notes to the Financial Statements

NOTE 1. PRINCIPLES OF CONSOLIDATION—All wholly-owned subsidiaries are included in the consolidated statements and all intercompany accounts have been eliminated. Companies in which the Company owned 50% of the outstanding stock have not been consolidated.

It is the policy of the Company to state its investment in 50% owned unconsolidated affiliated companies at an amount equal to the underlying book value of such affiliates.

NOTE 2. FIXED ASSETS – Fixed assets are composed of:

Land	$ 1,314,890
Buildings	1,269,640
Leasehold improvements	4,159,147
Bowling lanes and related equipment	2,585,210
Equipment and fixtures – Other	3,057,468
Automobiles	6,736
	$12,393,091
Less: Accumulated depreciation and amortization	3,299,967
	$ 9,093,124
Less: Investment credit used	3,714
	$ 9,089,410

The Company and its subsidiaries have applied the seven percent investment credit available under Section 38 of the Internal Revenue Code, as a reduction of the fixed assets. Depreciation has been computed on the net asset. An unused investment credit in the amount of $35,852 may be carried forward to future years.

Land costing $170,000 has been pledged as security for a first mortgage payable by the lessee of the property. (Note 10)

Two subsidiaries have issued personal property mortgages totaling $52,000 to landlords to secure performance of lessee's covenants under the leases.

See Note 7 for fixed assets pledged as security for long-term debt.

NOTE 3. OTHER ASSETS – Other assets are composed of:

	October 31, 1962	October 31, 1961
First purchase money mortgages – Due after one year	$ 92,445	$164,845
Unamortized debt discount and expense	325,982	245,685
Unamortized leasehold expense	183,226	111,396
Deposits on leases	138,453	138,453
Goodwill	133,904	131,354
Other	357,529	199,189
	$1,231,539	$990,922

NOTE 4. FEDERAL TAXES ON INCOME – Provision has been made for all known income tax liabilities of the Company and its subsidiaries to October 31, 1962. The Federal income tax returns of the Company and its subsidiaries have been examined by the Internal Revenue Service through October 31, 1957.

NOTE 5. DEFERRED INCOME – Deferred income consists of:

Net gain, after Federal income taxes to be realized in future years on installment sales of land	$ 87,526
Deferred Federal income taxes attributable thereto	20,674
	$108,200
Deferred rental income	1,666
	$109,866

NOTE 6. DEFERRED FEDERAL INCOME TAXES – Depreciation has been computed on the straight line method for financial reporting but on an accelerated method, where possible, for Federal income tax purposes. The tax credits applicable to the increased depreciation taken for Federal income tax purposes are carried on the balance sheet as "Deferred Federal Income Taxes."

NOTE 7. LONG-TERM DEBT – Long-term debt is composed of the following:

Company			*Interest Rate*	*Maturity*	*Amount of Annual Payments*	*Balance October 31, 1962 Total*	*Balance October 31, 1962 Long-Term*
General Drive-In Corporation	Note payable	(A)	4¾%	April 30, 1963		$ 300,000	$ 300,000
Norwood Theatre Corp.	Mortgage payable	(B)	5½	April, 1976	$10,825 {Principal and interest	102,970	97,677
Smith-Miami Theatre Corp.	Notes payable	(C)	5	Dec., 1963	30,000†	35,000	5,000
Smith-Miami Theatre Corp.	Notes payable	(D)	4	Oct., 1967	{1 year at 5,000 {4 years at 11,250	50,000	45,000
Britton Theatre Corp.	Notes payable	(E)	None	April 15, 1969	12,500	81,250	68,750
Detroit West Realty Corporation	Mortgage payable	(F)	5½	Oct. 16, 1971	18,382	207,223	188,841
Greece-Pittsford Drive-In Corp.	Mortgage payable	(G)	7	May 31, 1972	13,263	187,026	173,763
Greece-Pittsford Drive-In Corp.	Purchase money mortgage	(H)	6	May 9, 1964	73,667	128,917	55,250
Greece-Pittsford Drive-In Corp.	Notes payable	(J)(1)	° °	°Aug., 1968	57,600	339,780	282,180
Greece-Pittsford Drive-In Corp.	Notes payable	(J)(4)	° °	°Jan., 1965	60,600	136,350	75,750
Holiday Lanes-Lewiston, Inc.	Notes payable	(J)(1)	° °	°July, 1969	40,960	270,597	229,637
Holiday Lanes-Lewiston, Inc.	Notes payable	(J)(4)	° °	°June, 1965	32,860	96,681	63,821
Westerly Bowling, Inc.	Notes payable	(J)(1)	° °	°Feb., 1969	28,800	183,093	154,293
Westerly Bowling, Inc.	Notes payable	(J)(4)	° °	°April, 1965	23,370	58,425	35,055
Holiday Lanes-Gloucester, Inc.	Notes payable	(J)(2)	° °	°Feb., 1970	33,048	183,836	150,788
Holiday Lanes-Parkway, Inc	Notes payable	(J)(3)	° °	°Nov., 1969	65,691	357,679	291,988
Holiday Lanes-Stoneham, Inc.	Notes payable	(J)(1)	° °	°Jan., 1970	28,800	209,729	180,929
Holiday Lanes-Stoneham, Inc.	Notes payable	(J)(4)	° °	°June, 1966	27,974	101,406	73,432
Gulf States Recreation Corporation	Notes payable	(J)(1)	° °	°March, 1969	38,400	244,661	206,261
Gulf States Recreation Corporation	Notes payable	(J)(4)	° °	°June, 1965	41,760	109,614	67,854
Gulf States Recreation Corporation	Notes payable	(K)	° °	Jan., 1964	2,906	3,632	726
Gulf States Recreation Corporation	Notes payable	(L)	° °	July, 1964	3,775	6,607	2,832
Lisbon Bowling, Inc.	First mortgage note	(M)	6	Sept., 1971	14,985	156,927	141,942
						$3,551,403	$2,891,769

°Approximate due date.
°°Interest included in face amount of note.

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NOTE 7. LONG-TERM DEBT – *continued*

(A) *Although the note payable to the State Mutual Life Assurance Company of America matures on April 30, 1963, the Company intends to refinance the principal amount outstanding in accordance with the provisions of the loan agreements described below. Accordingly, this amount is reflected on the balance sheet as a long-term liability.*
On December 20, 1962, the Company entered into a loan agreement with State Mutual Life Assurance Company of America providing for loans of not more than $2,666,667 prior to May 1, 1964 on 15-year 5½% notes with principal payable semi-annually beginning five years from take-down date. First proceeds must discharge the balance of notes due April 30, 1963.
On the same day, the Company entered into a loan agreement with The First National Bank of Boston providing for loans of not more than $1,333,333 to August 1, 1964 on 5-year 5¼% notes with quarterly reductions thereafter of $66,667 in the maximum outstanding allowable. Quarterly payments of $66,667 will begin November 1, 1964 or later if the full commitment is not taken down, resulting in full liquidation by April 30, 1969.
As of January 17, 1963, no funds had been borrowed under either agreement and there were no defaults thereunder.

(B) *Secured by a lien on real estate in Norwood, Massachusetts.*

(C) *Secured by a first mortgage on fixed assets.*

(D) *Secured by a second mortgage on fixed assets.*

(E) *Secured by a conditional sales contract covering theatre equipment and lease.*

(F) *Secured by land, located in Oak Park, Michigan.*

(G) *Secured by a first mortgage on building on leased land.*

(H) *Secured by a chattel mortgage on all personal property and equipment subject to prior liens.*

(J) *Secured by conditional sales contract –*
(1) Automatic pinsetters – payable at the higher of fixed monthly payments or 12¢ per line bowled.
(2) Automatic pinsetters – payable $9,048 down and $2,000 per month.
(3) Automatic pinsetters – payable $17,691 down and $4,000 per month.
(4) Bowling lanes and related equipment – payable in 32 fixed installments.

(K) *Secured by conditional sales contract on a sign.*

(L) *Secured by insurance.*

(M) *Secured by real estate located in Lewiston, Maine, and the beneficial interest of Holiday Lanes-Lewiston, Inc. in Brunswick equipment.*

NOTE 8. STOCK OPTIONS – (a) Mr. Melvin R. Wintman, vice-president, has an option to buy 5,250 shares of common stock at $3.8095 per share. The option was issued in 1959 and terminates February 1966. The option provides that 1,050 shares may be purchased in any one year during the first five years. The option is not transferable and terminates in the event the optionee ceases to be an employee of the Company. At October 31, 1962, 4,200 shares had been purchased under this option.

(b) On April 10, 1961 the stockholders approved a restricted stock option plan. Under the plan key employees, (but not directors) selected by a management committee, may be granted options to purchase in the aggregate not more than 35,000 shares of common stock (limited to 5,000 shares per participant) at prices not less than 85% of the fair market value at the time an option is granted.

The plan provides that the options may be exercised at the rate of 20% per year beginning with the second year with a right of cumulation as to shares not purchased in prior years. The options are not transferable and expire six years from the date of grant.

On May 4, 1961 the Company granted options covering 17,300 shares of common stock at $16.00 per share, which was approximately 85% of the fair market value as of such date.

On December 18, 1962 the Company granted options covering 15,950 shares of common stock at $8.00 per share which was approximately 85% of the fair market value as of such date.

As of January 17, 1963 no options had been exercised.

NOTE 9. RESTRICTION ON PAYMENT OF DIVIDENDS – Loan agreements with The First National Bank of Boston and the State Mutual Life Assurance Company of America dated December 20, 1962 (Note 7) prohibit the payment of dividends other than stock dividends or redemption or purchase of any stock of the Company unless, after giving effect thereto, the aggregate amount of all distributions subsequent to October 31, 1962 does not exceed the sum of $600,000 plus consolidated net income (as defined) from November 1, 1962 to the end of the quarter prior to such distribution; provided, however, that no distribution shall be permitted which violates or results in a default under any other section of the agreements.

NOTE 10. COMMITMENTS AND CONTINGENCIES – The aggregate minimum annual amount of rentals of the Company and its subsidiaries under leases in effect at October 31, 1962 for terms expiring after October 31, 1963 was approximately $1,136,000.

The Company and its subsidiaries are obligated to construct new bowling buildings in the approximate amount of $1,600,000. Under the agreements approximately $1,200,000 is to be refunded. The anticipated costs for bowling lane beds, pinspotter machines and related equipment for the new bowling locations will be approximately $1,750,000.

The Company has guaranteed the payment of a second mortgage of Medford Bowling, Inc. (a nonaffiliated company) in the amount of $95,000. It has also pledged land costing $170,000 as security for a first mortgage of this company.

Medford Bowling, Inc. issued an irrevocable option to General Drive-In Corporation to purchase all of its outstanding stock for $95,000. The option is exercisable until February 1975 and provides for the placing of this stock with an escrow agent to guarantee performance under the option.

Accountants' Opinion

TO THE BOARD OF DIRECTORS
GENERAL DRIVE-IN CORPORATION

We have examined the consolidated balance sheet of GENERAL DRIVE-IN CORPORATION and its subsidiary companies as of October 31, 1962 and the related consolidated statement of income and retained earnings for the year then ended. As to a number of subsidiaries and as to the unconsolidated affiliated companies we have accepted the reports of other independent public accountants (Goodman & Goodman and Peat, Marwick, Mitchell & Co.). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, based upon our examination as described above and the reports of other independent public accountants, the aforementioned financial statements and the notes thereto present fairly the financial position of GENERAL DRIVE-IN CORPORATION and its subsidiary companies as of October 31, 1962 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. K. LASSER & COMPANY

New York, New York
January 18, 1963

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GENERAL DRIVE-IN CORPORATION OPERATING UNITS

DRIVE-IN THEATRES (26)

SUBURBAN & RESORT THEATRES (18)

SHOPPING CENTER THEATRES (10)

BOWLING CENTERS (11)

SHOPPING CENTER THEATRES (17)

BOWLING CENTERS (5)

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